



Fairfax County Internal Audit Office

Department of Economic Initiatives
Business Process Audit
Final Report

October 2022

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Executive Summary

We performed a business process audit covering procurement, reconciliation, and personnel/payroll administration within the Department of Economic Initiatives (DEI). The audit included review of procurement cards, FOCUS marketplace cards, purchase orders, non-purchase orders, monthly reconciliations, and verifying compliance with Personnel/Payroll Administration Policies and Procedures (PPAPP). The areas covered in PPAPP included the applicable time/attendance system and controls, employee clearance record processing, and credit check requirements for positions of trust.

We noted the following areas where controls will be strengthened as a result of this audit:

- We noted twenty-five instances in which the p-card transaction log was not properly completed. Some fields on the log were left blank such as the sign in/out date and user initials/signature. In two instances, the card was signed out by an individual who was not the actual user of the card. The p-card program manager will ensure that Internal Control Procedures are being followed, and the department director will conduct monthly spot-checks to ensure that procedures are being followed. Staff have been reminded that a p-card can only be used by the person who signed it out.
- DEI did not have a Department Reconciliation Plan that was approved by the Department of Finance (DOF). DEI staff is developing a Department Reconciliation plan and will have it submitted by December 1, 2022.
- DEI did not maintain a Using Agency Director's Statement of Responsibility document for p-card use. Although completed during the audit, it was not forwarded to DPMM. DEI has since submitted a signed Statement of Responsibility to DPMM.
- We noted one instance where a split purchase was made between the procurement card and a purchase order. DEI staff has been made aware of the importance of following proper purchasing policy and will seek guidance from DPMM when in doubt.
- Of the 7 purchase orders tested, we noted 2 purchase orders were created and approved *after* the corresponding order was placed with the vendor. Department employees will receive training by October 21, 2022, with the director performing periodic spot-checks of orders to ensure compliance with policy. Department management will conduct a training to ensure employees are aware of, and comply with, policy and procedure.

- In our review of non-PO travel reimbursement transactions, we noted four instances on a travel voucher where there was no supporting documentation for mileage claimed. Additionally, two travel-related p-card purchases were not supported by itemized receipts. Furthermore, we noted one travel authorization form that was not dated. Department management will be providing training to ensure that staff are familiar and compliant with travel policies and procedures.
- In our review of p-card and marketplace transactions, we noted 4 out of 34 purchases that were not properly supported by a signed and dated invoice/packing slip or other evidence indicating who confirmed the receipt of goods/services and when it was confirmed. DEI staff members have been reminded to follow and comply with policy regarding receiving documentation.

Scope and Objectives

This audit was performed as part of our fiscal year 2022 Annual Audit Plan and was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to review DEI's compliance with county policies and procedures for purchasing processes, personnel/payroll administration, and financial reconciliation. We performed audit tests to determine internal controls were working as intended and transactions were reasonable and did not appear to be fraudulent.

The audit population included procurement card, FOCUS marketplace, purchase order, and non-purchase order transactions that occurred during the period of May 1, 2021, through April 30, 2022. For that period, the department's purchases were \$39,006 for procurement cards, \$310 for FOCUS marketplace, \$70,472 for purchase orders that were received, and \$17,421,673 for non-purchase order payments.

Methodology

Audit methodology included a review of the department's business process procedures with analysis of related internal controls. Our audit approach included an examination of expenditures, records and statements; interviews of appropriate employees; and a review of internal manuals and procedures. We evaluated the processes for compliance with county policies and procedures. Information was extracted from the FOCUS and PaymentNet systems for sampling and verification to source documentation during the audit.

Findings, Recommendations, and Management Response

1. Procurement Card Transaction Log

In our review, we noted twenty-five instances in which the transaction log was not properly completed. Some fields were left blank such as the sign in/out date and user initials/signature. In two instances, the card was signed out by an individual who was not the actual user of the card.

PTB 12-1009, *Use of the County Procurement Card*, states: “The department shall maintain a log that records purchases as they occur and tracks who is in possession of p-cards.”

If possession of the procurement card is not accurately tracked, the risk of fraudulent transactions is increased. Additionally, accountability is reduced in the event a card is lost or inappropriate charges are placed on the card.

Recommendation: DEI staff should complete all fields on the transaction log when making purchases to ensure that card use is properly documented and monitored.

Management Response: The P-Card Program Manager will continue to manage and monitor the transaction log, ensuring that all fields are completed for each transaction/purchase, following DEI P-Card Internal Control Procedures. The Department director will conduct monthly spot-checks of transaction logs to ensure proper completion, and staff will be notified and reminded that P-card cannot be signed out by one user used by another.

Note: *Management has stated that they have completed these actions as of this audit report. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*

2. Department Reconciliation Plan

DEI did not have a written reconciliation plan that was approved by the Department of Finance. Accounting Technical Bulletin 020, *Financial Transactions Reconciliation*, states that each agency must develop a written reconciliation plan and obtain approval by the Department of Finance.

Failure to maintain a Department Reconciliation Plan increases the risk that operating procedures may not be in compliance with County policy and contain significant internal control weaknesses.

Recommendation: We recommend DEI develop a written reconciliation plan and obtain approval from the Department of Finance.

Management Response: DEI management will develop a written reconciliation plan and submit to the Department of Finance for approval, currently being drafted per FPS 020 *Financial Reconciliation and Oversight*. Management anticipates completing these actions by December 1, 2022.

3. Using Department Director's Statement of Responsibility for P-Cards

DEI did not have a Using Department Director's Statement of Responsibility on file for their current director. Although one was created during the audit process, they did not forward a signed copy to the Department of Procurement and Material Management (DPMM) after it was created.

Procurement Technical Bulletin (PTB) 12-1009 states that: "The agency director is required to sign this form prior to the agency's initial participation in the p-card program. When the director leaves the agency, the Program Manager should have the new director sign the form and forward the original to DPMM."

Failure to have a signed Using Department Director's Statement of Responsibility on file decreases accountability and increases the risk of operating the p-card program outside of County guidelines.

Recommendation: We recommend DEI forward the signed Using Department Director's Statement of Responsibility to DPMM and maintain a copy at the agency.

Note: IAO verified that DEI submitted an updated Using Department Director's Statement of Responsibility to DPMM. No follow up will be performed for this item.

4. Split Purchases

We noted one instance where a split purchase was made to purchase graphic design services where the transaction was split between p-card and a purchase order. Split transactions occur when the original purchase requirement for the same or related goods or services is broken into multiple smaller purchases which are made over a short period of time.

Procurement Technical Bulletin (PTB) 12-1009, *Use of the County Procurement Card*, prohibits split purchases and notes that these types of transactions are usually done to circumvent a card's single purchase or cycle spending limit. Requirements which are divided for other purposes, such as to accommodate accounting needs or to facilitate delivery to separate locations are also considered split purchases.

Recommendation: DEI should utilize proper purchasing methods in accordance with county policy. When exceptions to policy are made, they should be clearly documented and approved.

Management Response: DEI will utilize and follow purchasing policies, including Procurement Technical Bulletin (PTB) 12-1009 and when in doubt request guidance from DPMM. In cases of exceptions, they will obtain approval and document it fully.

Note: Management has stated that they have completed these actions as of this audit report. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.

5. Purchase Order Created *After* Receipt of Invoice

Of the 7 purchase orders tested, we noted that two purchase orders were created and approved *after* the order was already placed with the vendor. For an order of \$5.2K for graphic design services, the shopping cart was created on 10/7/21 and approved on 10/8/21; however, the invoice date was 7/21/21. The second order, for \$9.2K for transportation services, had a shopping cart creation date of 1/25/22 and an invoice date of 1/5/22.

Agencies are required to create and approve a purchase order in FOCUS prior to placing an order with a vendor. If an agency fails to process a purchase through a purchase order, they must comply with the provisions of PTB 12-1007, *Unauthorized Purchases/Confirming Orders*, and process the payment as a confirming order.

Failure to create and approve a purchase order in FOCUS prior to placing an order with a vendor circumvents the approval process, promises payment to a vendor for funds that have not yet been encumbered for that purpose and prevents an adequate separation of duties. It is also a violation of the Fairfax County Purchasing Resolution and increases the risk of contractual legal liabilities.

Recommendation: We recommend the department submit a procurement request through FOCUS and have it approved before placing an order with a vendor. If an order is placed without an approved purchase order, DEI should comply with the remediation provisions of PTB 12-1007.

Management Response: Going forward, DEI will always submit and approve a procurement request through FOCUS prior to placing an order with a vendor. They will train staff to ensure proper understanding. Additionally, the DEI director will spot-check orders placed with vendors to ensure procurement request has been approved. Management anticipates completing the training by 10/21/22.

6. Travel

We noted the following instances of non-compliance with the County Travel Policy:

- 1) There were four instances on one travel voucher where mileage claimed was not supported by mileage printouts or street addresses of origins and destinations traveled.
- 2) For two p-card purchases, expenses were not supported by itemized receipts.

3) One travel authorization form was not dated.

Procedural Memorandum (PM) 06-03, *Fairfax County Travel Policies and Procedures*, states that “Whenever the county procurement card is used for travel, original, itemized receipts are required and are to be submitted and retained by the department credit card custodian.” It also states, “All non-local travel requires prior approval. A completed Travel Authorization Form is required for all non-local and overnight travel including trips where the procurement card is used for any or all expenses.” Further, *DOF’s Travel Tips and Reminders* (published on their website) requires that supporting map detail be maintained as back-up documentation. Finally, an element of a good and mature internal control environment is to have sufficient supporting documentation for an independent third party to be able to determine where and why the employee traveled, and if the correct travel expense was reimbursed.

Not abiding by the County travel policy, DOF’s Travel Tips and Reminders, and not having sufficient supporting documentation increases the risk of unauthorized travel, fraud, or waste of county funds.

Recommendation: We recommend that DEI reinforce and implement the PM 06-03, *Fairfax County Travel Policies and Procedures* along with the *DOF Travel Tips and Reminders* with staff. The Department should maintain on file the complete documentation for each procurement card transaction, including an explanation of the business purpose of the transaction if not clearly provided by the vendor receipt. In addition, the Department should maintain documentation supporting all mileage expense reimbursement claims and should ensure that travel authorization forms are signed and dated by an authorized party prior to travel taking place.

Management Response: DEI will ensure all staff are trained on and comply with the PM 06-03, *Fairfax County Travel Policies and Procedures* and the *DOF Travel Tips and Reminders*, document p-card travel transactions including an explanation of the business purpose, maintain documentation supporting all mileage expense reimbursement claims and sign travel authorization forms prior to travel taking place. Management anticipates completing training on these tasks by 10/31/22.

7. Receipt Documentation

In our review of p-card and marketplace transactions, we noted 4 out of 34 purchases that were not properly supported by a signed and dated invoice/packing slip or other evidence indicating who confirmed the receipt of goods/services and when it was confirmed.

Procurement Technical Bulletin (PTB) 12-1008 – *Online Procurement using FOCUS Marketplace*, requires that agencies verify goods received against the packing list and the original order. PTB 12-1009 – *Use of County Procurement Card*, requires that all receipt documentation be filed with the appropriate bank record (monthly statement or weekly transaction detail report) and retained by the department.

Failure to adequately document the receipt of purchases prevents the assurance of an adequate separation of duties and increases the risk of paying for items that were not received.

Recommendation: DEI should ensure that receipt of all ordered goods and services is adequately documented in a timely manner. If a packing slip is not included with the shipment, receipt of the ordered goods should be documented on the invoice or a separate receiving report with the receiver's initials and date. All receiving documentation should be maintained on file with the supporting documentation for the transaction.

Management Response: DEI will follow PTBs 12-1008 and 12-1009 and document receipt of goods and services, including documenting received goods if a packing slip is not included.

Note: *Management has stated that they have started acting on this item as of this audit report. IAO will follow up on these actions after sufficient time has passed to be able to review enough transactions to determine that the new process is consistently applied.*